AN AMERICAN STANDARD OF VALUE

THE MARKET GAGE DOLLAR

The Market Gage plan, which has been presented in this REVIEW,[1] assumes:

That, in purchasing power, all money and credits used as media of exchange vary directly with changes in the gold weight of the dollar of redemption for which they, in effect, are demand due-bills; and that the general price level varies *inversely* with the purchasing power of such money and credits. The term credits as here used covers all credits used as media of exchange, including book entries and all written and oral and even tacit agreements to pay in money or in goods priced in money.

That, therefore, to increase the gold weight of the dollar will increase the purchasing power of all media of exchange reckoned in dollars and thereby lower the price level; and to lessen the gold in the dollar will lower their purchasing power and raise the price level.

That the per cent of change in the general price level may be found each day by comparing the day's wholesale prices of all commodities with those of the preceding day.

That, these assumptions being sound, price level stability may be maintained by correcting each aberration as it appears, thus preventing cumulative change.

Its author cannot agree with Professor Irving Fisher that in the construction of the index number a selected list should be used "which should exclude the sluggish commodities in order to be more promptly responsive to price changes." In using such a partial list and excluding from it the "sluggish and price-fixed commodities," and basing his proposed index number on the active and flighty commodity prices, Professor Fisher would be cutting loose from the true all-commodity value level. This would allow his price level to be dragged downward by the pull of those commodities which by discoveries or by cheapened production are being permanently lowered in price, or to be pushed upward by commodities permanently enhanced in price by scarcity. And, his index number not being a gage of the all-commodity price level, he would have no means of knowing how far he would have departed from his original level. As the dollar must be a true measure of value for all things, all things must enter into its schedule.

The first draft of this plan called for weekly regulation of the redemption rate. The reason for the prompt shift to daily ad-

[1] AMERICAN ECONOMIC REVIEW, vol. 8 (Sept., 1918), p. 579.

justments was the obvious one, that, otherwise, the dollar would be off center most of the time and correction when it came would often cause a jolt. All objections to adjusting but once a week apply with greater force to monthly or quarterly regulation. Infrequent adjustments would impair the worth of the new dollar for statistical uses and as a standard of deferred payments. Any change in the weight of the bullion dollar should, except for a slight lag for which compensation is here provided, produce a reciprocal result, but such a result is by no means necessary to the full success of the plan. To the extent that it fails to fully correct the price level aberration, that aberration, unless in the meantime offset by a contrary market trend, appears in the Market Gage for the following day and causes further adjustment. (See Market Gage schedule on page 265.)

Things salable but not properly quotable on the market are not, as such, included in our schedule. Of these, labor and professional and personal services have hitherto, roughly speaking, risen and fallen with general prices and they should be generally steadied by a steady market level, though rising individually with increase of efficiency and rising as a whole as production, in proportion to a given expenditure of human effort, increases. A steady commodity market will steady wages by supplying simpler data for deciding what is just and right between employer and employee. But the wage level should not be tied fast to the commodity price level, for this would bar the worker from participation in the benefits of cheapened costs of production. The writer has elsewhere worked out a Wage Mean schedule in which wages in the various occupations are listed as commodities are in this schedule. Fluctuations of the Wage Mean signal changes in the national average of wages while fluctuations in the Occupation Index column (corresponding to PQ) show relative wage changes.

J. S. Mill taught that no standard can measure the value "of the same thing at different *times* and *places*." Comparisons of commodity price averages have given us since his time a means of comparing the value "of the same thing at different *times*," in the same market; but no standard that will correctly gage the value of the same thing in different *places*, even at the same time, is yet in sight. Has gold itself ever been, at any one time, of the same all-commodity purchasing power in all countries? Gold, through its proxies, will still be the common vehicle of value. Will occasional change in the weight of gold given a certain name equalize

the exchange value of gold the world over? An international index number with a money unit based thereon would "correct" the net average of price level aberrations the world over, yet its unit would be truly stable nowhere. With so unwieldy a schedule daily regulation would be impossible, yet how else than by daily adjustments of the unit could price level changes due, say, to temporary local credit inflations or contractions, be corrected? Neighboring countries with common free markets may have a common standard, but in widely separate markets the same value can seldom be indicated by the same weight of gold.

International agreement to stabilize separately the various money units is desirable but by no means indispensable. The adoption of an American standard of value would be of immediate benefit and should soon lead to stabilization in other countries.

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MARKET GAGE SCHEDULE[1]

Dollar = 1.6718 grams-d'or (25.8 grains gold)

No.	T	W			Q	P	PQ	PQW
1	80	.002	Gold	U.S. Mint/gram	1.6718	.598	1.	.002
2	400	.010	Copper	Ingot/NY/cwt.	.0400	25.00	1.	.010
3	1,000	.025	Iron-stl.	I.bar/Pbg/ton	.0500	20.00	1.	.025
4	760	.019	Coal	Bitu/Cinc/ton	.3125	3.20	1.	.019
5	800	.020	Corn	No.3/Chi/cwt.	.9091	1.10	1.	.020
6	1,600	.040	Wheat	1 Nor/Mps/cwt.	.4000	2.50	1.	.040
7	1,400	.035	Cotton	Middlg/NO/cwt.	.0625	16.00	1.	.035
8	1,600	.040	Sugar	Granul/NY/cwt.	.1300	7.69	1.	.040
9	1,200	.030	Cattle	Steers/Chi/cwt.	.1000	10.00	1.	.030
	(31,160	.779	All other commodities					.779)
	40,000	1.00	Market Gage at opening, first day.....					1.00

[1] All goods on the wholesale market must be listed, the major items separately, the minor items in groups. A few series are here shown; all others being lumped together in one line to make up the 40 billions (assumed) annual trade.

DAILY ADJUSTMENTS[1]

Close of first day				Second day		Third day		Fourth day	
No.	QW	P	PQW	P	PQW	P	PQW	P	PQW
1	.003344	.598	.0020	.598	.0020	.598	.0020	.598	.0020
2	.00040	24.75	.0099	24.75	.0099	24.50	.0098	24.75	.0099
3	.00125	20.00	.0250	19.60	.0245	19.60	.0245	20.00	.0250
4	.00594	3.00	.0178	3.00	.0178	3.00	.0178	3.00	.0178
5	.01818	1.20	.0218	1.20	.0218	1.21	.0220	1.20	.0218
6	.01600	2.70	.0432	2.60	.0416	2.62	.0419	2.60	.0416
7	.00219	16.00	.0350	16.00	.0350	15.80	.0346	15.80	.0346
8	.00520	7.75	.0403	7.69	.0400	7.60	.0395	7.75	.0403
9	.00300	9.50	.0285	9.40	.0282	9.40	.0282	9.50	.0285
	(All others....		.7768		.7791		.7795		.7787)
	Market Gage..		1.0003		.9999		.9998*		1.0002
	Grams-d'or		1.6723		1.6721		1.6717		1.6720

[1] The redemption rate (the dollar equivalent in grams-d'or) multiplied by the M.G. for the day gives the rate for the following day. The M.G. for a certain day (*) having shown the same price trend as that for the preceding day, a trial allowance for lag—in this case 10 per cent of the day's aberration—is made in figuring the new rate.

EXPLANATION BY COLUMNS

T— Trade. The total volume—in millions of dollars—of the annual wholesale trade in each commodity.

W— Weighting. The relative market importance of each stated in decimals.

Q— Quantity. The initial commodity equivalent of the dollar, in decimals of the unit named.

P— Price. Current market price of quantity named.

PQ— P times Q, the commodity index, which at the beginning is 1 in each line. Net change in price of each commodity since the construction of the schedule may be shown daily by this index.

PQW— M.G. component, PQ times W. The footing of this column is the Market Gage.

QW— Q times W, the initial dollar equivalent, weighted, carried forward daily to facilitate figuring. QW times P = PQW.

The entire schedule should be revised yearly or as often as the necessary trade data for column T can be obtained.

After the average daily lag in market level adjustment shall have been determined, a compensatory allowance for such lag should be made whenever a market trend shall persist for two or more consecutive days.